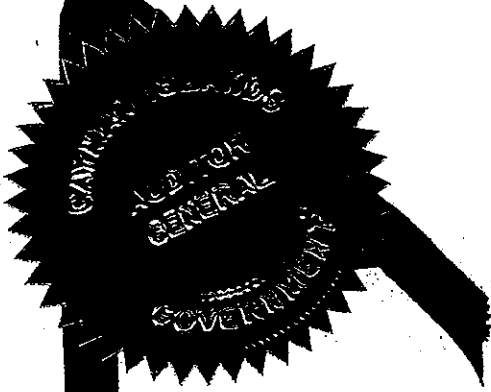


APPENDIX 1

Public Service Pensions Board Certified Financial Statements and Notes for the year ended 31 December 2004



Public Service Pensions Board

Financial Statements

For the Year Ended 31 December 2004

*Cayman Islands Audit Office
3rd Floor, Anderson Square
Phone: (345) 244-3211
Fax: (345) 945-7738
E-mail: auditorgeneral@gov.ky*

**PUBLIC SERVICE PENSIONS BOARD
TABLE OF CONTENTS**

CERTIFICATE AND REPORT OF THE AUDITOR GENERAL 1

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS 2

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS 3

STATEMENT OF CASH FLOWS..... 4

STATEMENT OF ACCUMULATED PLAN BENEFITS 5

NOTES TO THE FINANCIAL STATEMENTS 6-17



Cayman Islands

Public Service Pensions Board

CERTIFICATE OF THE AUDITOR GENERAL

To the Board Members and Shareholder of the Public Service Pensions Board

I have audited the accompanying financial statements of the Public Service Pensions Board (the "Board") which comprise the Statement of Net Assets Available for Benefits, Statement of Changes in Net Assets Available for Benefits and the Statement of Cash Flows for the year ended 31 December 2004 as set out on pages 2 to 17 in accordance with the provisions of Section 11(3) of the Public Service Pensions Law (2003 Revision) and Section 60 (a) of the Public Management and Finance Law (2005 Revision).

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriated accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Public Service Pensions Board as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Matter of Emphasis

Without qualifying my opinion, I draw attention to Note 7 to these financial statements.

The Management of the Public Service Pensions Board stated that the *"Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financials for the Parliamentary Pensions Fund."*

However, the Parliamentary Pensions Law, 2004 which came into effect in August 2004 states at section 9 (2) that *".....the Board shall prepare and submit to the Auditor General in respect of the year a balance sheet and a statement of revenue....."*

I believe that the letter and essence of the Parliamentary Pensions Law, 2004 was to have a separate set of financial information for the Parliamentary Pensions Fund. Section 3 clearly details the Auditor General's requirements in relation to the Parliamentary Pensions Fund specifically. These responsibilities seem to imply that my Office has to give an opinion on a separate set of statements which was not adhered to in this financial year.



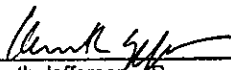
Dan Duguay MBA, CGA
Auditor General

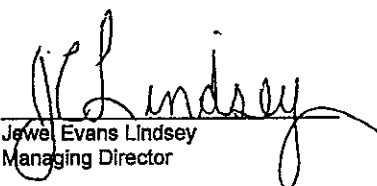
09 July 2007

Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

Assets	2004		2003	
	\$	\$	\$	\$
Cash		9,533,132		7,901,052
Term Deposits				
Bank of Nova Scotia		18,404,772		9,287,515
Fidelity		-		4,053,380
		<u>18,404,772</u>		<u>13,340,895</u>
Cash and Cash Equivalents (Note 3)		27,937,904		21,241,947
Investments, at Market Value (Note 4)		115,176,768		93,500,188
Receivables				
Income Receivable				
Investments	1,052,817		936,315	
Term Deposits	<u>42,507</u>		<u>17,811</u>	
Investment Income Receivable		1,095,324		954,126
Contributions Receivable				
Employer's contributions	1,893,895		1,042,561	
Employer's - Additional Defined Benefit Costs	2,998,168		5,530,042	
Employee's contributions	<u>1,934,140</u>		<u>757,668</u>	
		6,826,203		7,330,271
Parliamentarian Grant Receivable (Note 6)		75,248		119,753
Judiciary Grant Receivable (Note 8)		58,980		40,092
Other Receivables		286,058		75,236
Fixed Assets, Net (Note 5)		283,908		277,711
Liabilities				
Current				
Investment Management Fees		264,350		73,169
Accounts Payable		303,090		265,325
Overpaid Pension Payment Grant - Ex-Gratia (Note 6)		36,679		37,983
Long-Term				
Due in Respect of Judiciary				
Contributions (Note 8)	886,795		682,658	
Capitalized Government Grant (Note 11)	283,908		277,711	
Benefits Due (Note 9)	882,201		915,678	
Overpaid Contributions (Note 10)	4,544,201		3,221,407	
Total Liabilities		<u>7,201,224</u>		<u>5,473,931</u>
Net Assets		<u>144,539,169</u>		<u>118,065,393</u>
Represented by				
Net Assets Available for Benefits:				
Accumulated Fund		<u>144,539,169</u>		<u>118,065,393</u>

Signed on behalf of the Public Service Pensions Board
on 9 July 2007:


Kenneth Jefferson, JP
Chairman


Jewel Evans Lindsey
Managing Director

Public Service Pensions Board
Statement of Changes in Net Assets Available for Benefits
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

	2004 \$	2003 \$
Contributions		
Employers'	8,577,198	7,272,535
Employers' - Additional Defined Benefit Cost	10,814,531	9,892,586
Employees'	8,577,199	7,272,535
Enhanced Retirement	-	35,435
Transfers In	<u>36,713</u>	<u>10,129</u>
	28,005,841	24,483,220
Pre-Funded Pensions in Payment (Note 6)		
Parliamentarian Pensions	717,796	754,307
Ex-Gratia Pensions	140,005	128,425
	<u>28,863,442</u>	<u>25,365,952</u>
Total Contributions		
Benefits paid to participants (Note 9)		
Public Service Pensions	(8,874,119)	(9,018,754)
Parliamentarian Pensions	(717,795)	(754,307)
Ex-Gratia Pensions	(140,005)	(128,725)
	<u>(9,731,919)</u>	<u>(9,901,786)</u>
Investment Income		
Unrealised Gain on Investments (Note 4)	1,093,539	6,130,696
Interest Earned on Investments	2,585,581	1,949,141
Interest Earned on Term Deposits and Call Accounts	420,746	374,920
Dividends Earned on Investments	940,458	720,806
Gain on Sale of Investments	2,683,888	668,612
Foreign Exchange Gain	-	7,829
Total Investment Income	<u>7,724,212</u>	<u>9,852,004</u>
Investment Expenses		
Investment Management Fees (Note 11)	(278,738)	(186,234)
Interest Attributable to Judiciary Contributions (Note 8)	2,093	1,277
Total Investment Expenses	<u>(276,645)</u>	<u>(184,957)</u>
	<u>7,447,567</u>	<u>9,667,047</u>
Net Investment Income		
Operating Income		
Government Grant (Note 11)	1,262,277	991,806
Other Income	184,878	65,288
Operating Expenses		
Administrative Expenses (Note 11)	(1,488,012)	(1,105,559)
Depreciation - Fixed Assets (Note 5)	(64,456)	(57,039)
	<u>(105,313)</u>	<u>(105,504)</u>
Net Operating Income		
Net increase in assets	26,473,777	25,025,709
Net Assets Available for benefits at start of year	<u>118,065,393</u>	<u>93,039,684</u>
Net Assets Available for benefits at end of year	<u>144,539,170</u>	<u>118,065,393</u>

Public Service Pensions Board
Statement of Cash Flows
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

	2004	2003
	\$	\$
Cash flows from operating activities		
Contributions received from employees	7,437,440	7,110,558
Contributions received from employers	7,725,864	6,904,081
Benefits Paid to Participants - Public Service	(8,907,596)	(12,513,953)
Benefits Paid to Participants - Parliamentarian	(717,795)	(754,307)
Benefits Paid to Participants - ExGratia	(140,005)	(128,725)
Net Investment Income Received	3,730,773	2,636,740
Other Income Received	1,300,789	930,438
Administrative Expenses Paid	(1,417,669)	(1,034,803)
Investment Management Fees and Other Expenses Paid	(89,624)	(146,156)
Net cash provided by operating activities	<u>8,922,177</u>	<u>3,003,873</u>
Cash flows from investing activities		
Purchase of investments	(70,634,369)	(108,553,554)
Proceeds from sale and maturity of investments	52,694,768	75,590,990
Purchase of Fixed Assets	(103,231)	(60,660)
Net cash applied to investing activities	<u>(18,042,832)</u>	<u>(33,023,224)</u>
Cash flows from financing activities		
Contributions received from employers - Additional Defined Benefit Pensions in Payment Grant - Parliamentarian	14,669,199	9,141,761
Ex-gratia Grant and Prepaid Ex-gratia Grant	762,301	752,609
	138,701	136,937
Net cash received from financing activities	<u>15,570,201</u>	<u>10,031,307</u>
Cash flows from judiciary contributions		
Contributions received from employees	65,773	30,976
Contributions received from employer	218,433	144,293
Benefits Paid to Participants	(39,888)	(51,056)
Interest Attributable to Judiciary Contributions	2,093	1,277
Net cash received from judiciary contributions	<u>246,411</u>	<u>125,490</u>
Net increase / (decrease) in cash and cash equivalents	6,695,957	(19,862,554)
Cash and cash equivalents at beginning of year (Note 3)	21,241,947	41,104,501
Cash and cash equivalents at end of year (Note 3)	<u>27,937,904</u>	<u>21,241,947</u>

Public Service Pensions Board
Statement of Accumulated Plan Benefits
As at 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

	2004	2003
	\$	\$
Actuarial present value of accumulated plan benefits (Note 12 & 13)		
Inactive Participants	(64,483,068)	(64,483,068)
Active Participants	<u>(195,419,022)</u>	<u>(195,419,022)</u>
Total Actuarial present value of accumulated plan benefits	<u>(259,902,090)</u>	<u>(259,902,090)</u>
Fund's Net Assets Available for Benefits at the Valuation Date	<u>144,539,169</u>	<u>118,065,393</u>
Fund Deficit	<u><u>(115,362,921)</u></u>	<u><u>(141,836,697)</u></u>

**Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)**

1. Introduction and Background Information

a. Introduction

The Public Service Pensions Board (the "Board") was re-established as a Statutory Authority on 14 April 1999. The Board is responsible for, amongst other things, administering the Public Service Pensions Fund (the "Fund"), communicating with the plan employers and participants, recommending contribution rates to the Government in accordance with the latest actuarial valuation and determining the financial implications of amendments to the Plan. The Public Service Pensions Law (2004 Revision) (the "Law") is the law governing the Fund. The Fund's main functions are to receive and invest pension contributions from public sector employers and employees and to pay out pension benefits as due under the Law. The Fund is vested in the Board.

b. General Background Information

The Plan consist of two parts a defined benefit part and a defined contribution part.. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined Benefit Part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two parts depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined Contribution Part of the Plan to 1 January 2000. Those employees receiving Contracted Officers Supplement (COS) are exempted from participation in the Plan through the Public Service Pensions (Amendment and Validation) Law, 2000. However, when existing contracts are renewed, employees will no longer be in receipt of COS and will be eligible join the defined contribution part of the Plan.

c. Contributions

Employees who participate in the plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs were prescribed by the Board based on the 1 January 2002 actuarial results and were as follows:

• Cayman Islands Government	10.00%
• Cayman Islands Monetary Authority	1.00%
• Cayman Turtle Farm Ltd.	10.00%
• Civil Aviation Authority	10.00%
• Community College of the Cayman Islands	3.99%
• Public Service Pensions Board	10.00%
• Water Authority	0.26%

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

Contribution rates for the additional defined benefit costs are based on pensionable earnings as of the valuation date and reflect the following:

- with respect to the defined contribution participants, the cost of certain benefits provided that are of a defined benefit nature;
- with respect to the defined benefit participants, the excess over 12% of pensionable earnings, of the normal benefit accrual costs plus the annual cost of meeting the unfunded past service liabilities.

The full liability for additional defined benefit costs will be borne by each respective employer.

Additional employers have joined the Public Service Pensions Plan as a result of the increasing number of Statutory Authorities being established by the Government. It was not possible to determine an appropriate additional defined benefit rate for the newer authorities as they have not been subject to an actuarial valuation. An interim rate of 1% was applied to all authorities during 2003 and 2004.

d. Payment of Benefits – Public Service Pensions Plan

The Public Service Pensions Law, 1999 provides for payment of retirement benefits to eligible participants. Normal retirement age is 60 but for participants with more than 10 years of qualifying service they may retire at age 55 with unreduced benefits. Eligible participants may retire between ages 50 and 55 with an actuarially reduced pension. The maximum amount of pension payable shall not exceed two-thirds of highest pensionable earnings drawn by participants at any time during the course of service. The formula used to calculate retirement benefits varies depending on whether the participant joined the service before or after 10 July 1980, with a reduced benefit accruing to those who commenced service after that date.

With the coming into effect of the Public Service Pensions Law, 1999 this 10 year vesting period was replaced by immediate vesting thereby ensuring all benefits accrue in the employees name from the date of enrollment.

e. The Public Service Pensions (Amendment and Validation) Law, 2000

The Public Service Pensions (Amendment and Validation) Law, 2000 was passed on 20 June 2000 validating Government's failure to enroll certain employees in the Plan. This Law made effective the Public Service Pensions Law, 1999 as of 1 January 2000 in terms of requiring enrollment in the Defined Contribution Part of the Plan. From that date on all eligible employees were enrolled in the Defined Contribution Part of the Plan.

<p>Public Service Pensions Board Notes to the Financial Statements For the Years Ended 31 December 2004 and 2003 (Expressed in Cayman Islands Dollars)</p>

The principal law was amended in 2002 to allow the Defined Benefit Part of the Plan to be re-opened to provide pension benefits for a finite group of former public servants who were employed in the Public Sector from 1 January 1940 to 31 December 1982 for a continuous period of 10 years or more in a pensionable post.

f. Investment Policy

The investment objective of the Board is for the Fund to earn returns that will, in conjunction with the financing plan, result in it becoming fully funded or self-sustaining. The investments are diversified within the constraints of the Law to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board has established an Asset Mix Policy in collaboration with its investment managers with a goal to achieve long-term returns 3-4% above inflation. The Asset Mix Policy indicates the policy and permissible ranges for broad classes of investments. In the longer term the investment portfolio will have a bias to equities because these have been shown to provide a greater return when compared to other classes of investments.

2. Significant Accounting Policies

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with International Financial Reporting Standards and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the plan sponsors and plan participants. They are prepared to assist participants and others in reviewing the activities of the Fund for the fiscal period, but they do not portray the funding requirements of the Plan or the benefits security of individual plan participants. The significant policies adopted by the Board are as follows:

Contributions:	Contributions are accounted for on the accrual basis.
Investments:	Investments are stated at their market value at the date of the Statements of Net Assets Available for Benefits. Realised and unrealised gains and losses are recognised in the Statements of Changes in Net Assets Available for Benefits.
Investment Income:	Investment income is accounted for on the accrual basis.
Fixed Assets:	Fixed assets are recorded at cost and amortization is calculated on a straight line basis as follows: <ul style="list-style-type: none"> • Furniture and Fixtures 10 years • Computer Equipment 5 years • Office Equipment 5 years • Leasehold Improvements Life of Lease

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

Foreign Currencies: Transactions in foreign currencies are translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at the date of the Statement of Net Assets Available for Benefits. Exchange gains and losses are recognised in the Statement of Changes in Net Assets Available for Benefits.

3. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of bank balances (\$9,533,132) and term deposits held at call with banks and maturing within 90 days. The term deposits held at year end were as follows:

<u>Institution</u>	<u>Maturity Date</u>	<u>CI\$ Value</u>
Bank of Nova Scotia	3-Jan-05	3,012,353
Bank of Nova Scotia	30-Jan-05	5,055,419
Bank of Nova Scotia	31-Jan-05	6,306,396
Bank of Nova Scotia	14-Mar-05	4,030,604
TOTAL		\$18,404,772

4. Investments

The appointed investment managers hold the Fund's investments under discretionary investment agreements. These investments conform to the list of Approved Investments detailed in the Second Schedule of the Law.

	<u>Cost</u>	<u>Market Value</u>
Equities	\$40,337,751	\$45,809,589
Bonds , issued and /or guaranteed by, Governments of USA and Canada	\$54,744,116	\$54,899,120
Bills , issued by the Government of Canada	\$954,547	\$955,250
Commercial Paper & Other Securities	\$3,154,662	\$3,232,429
Term Deposits	\$10,280,380	\$10,280,380
Total	\$109,471,456	\$115,176,768

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

5. Fixed Assets

	<u>Furniture & Fixtures</u>	<u>Computer Equipment</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Computer Software</u>	<u>Total</u>
Cost						
As at 01 January 2004	95,253	62,598	82,957	134,691	8,250	383,749
Purchased in the Year	7,543	35,825	2,200	57,663	-	103,231
Disposals	(2,789)	(22,132)	-	(25,859)	-	(50,780)
As at 31 December 2004	100,007	76,291	85,157	166,495	8,250	436,201
Depreciation						
Opening Balance	14,308	21,106	36,118	33,681	825	106,038
Current Year Depreciation	9,716	9,465	15,273	28,354	1,650	64,458
Remaining Value	(224)	(8,509)	-	(9,470)	-	(18,203)
Disposals						
As at 31 December 2004	23,800	22,062	51,391	52,565	2,475	152,294
Net Book Value						
As at 31 December 2004	76,208	54,227	33,766	113,931	5,775	283,908
As at 31 December 2003	80,945	41,490	46,839	101,012	7,425	277,711

6. Ex-Gratia and Parliamentarian Payments

The Board administers the payment of Ex-gratia Pension Plan on behalf of the Cayman Islands Government. The Government makes a quarterly pre-payment into the Fund to cover the expected payments for the coming quarter.

The Members of the Legislative Assembly participate in the Parliamentary Pensions Plan as governed by the Parliamentary Pensions Law, 1984 (1995 Revision) (the "Parliamentary Pensions Law"). These members contribute at a rate of 6% of pensionable earnings and employers contribute a matching 6%. A contribution of 10% is made by the employer to cover the additional defined benefit cost associated with the plan. These contributions have been pooled for investment purposes with those of the Fund. The Fund does not charge any fees for acting as administrators of the Members of the Legislative Assembly contributions.

For 2004, the Government made quarterly pre-payments to the Fund to cover the payment of pensions up until the passing of the Parliamentary Pensions Law 2004 on 23 August 2004 which required that benefit payments be made from the Parliamentary Pensions Fund.

The Parliamentary Pensions Law provides for payment of retirement benefits to eligible members with 2 or more parliamentary terms or for periods equal in aggregate to not less than 6 years. Normal retirement age

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

under the Parliamentary Pensions Law is 55. The maximum amount of pension payable to the Parliamentarians cannot exceed two-thirds of their highest salary earned whilst a member of the Legislative Assembly.

7. Assets Allocated to Parliamentary Pensions Fund

The Board administers the Government sponsored pension plans which consist of the Public Service Pensions Plan, Ex-gratia allowances, and the Parliamentary Pensions Plan. Historically, and in accordance with the establishment of the Fund under the Parliamentary Pensions Law (1995), the financial statements and records of the Fund have been prepared and maintained on a combined or consolidated basis.

Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financial statements for the Parliamentary Pensions Fund. Section 9 of the Parliamentary Pensions Law, 2004 currently states that "the Board shall prepare and maintain financial statements relating to the Parliamentary Pensions Fund. These financial statements shall include a balance sheet, statement of revenue and expenditure, and any other financial statements as may be required."

The Parliamentary Pensions Fund, since inception, has been pooled for investment purposes with those of the larger Public Service Pensions Fund for greater investment return opportunities and to contain administrative costs, and given the fact that no administration fees were charged to the Parliamentary Pension Fund, it was never necessary to maintain separate financial records for each fund under management. Therefore, at this stage, to prepare and submit a balance sheet and statement of revenue and expenditure specifically for the Parliamentary Pensions Fund would require the PSPB to establish a basis for the split of financial data, and would involve significant allocation estimations for all financial transactions, other than for contributions and benefit payments for Members of the Legislative Assembly. Presentation of such information in a specific financial statement format would imply a greater accuracy than the allocation estimates warrant.

The Board acted as advisor to Government, and was closely involved in the process of drafting the Parliamentary Pensions Law, 2004. To ensure consistency, the language and provisions of the Parliamentary Pensions Law were initially extracted directly from the Public Service Pensions Law. Through an oversight exacerbated by the Board's delays in tabling financial statements, not all administrative aspects of the draft law were fully tested, and inadvertently, the provision requiring a separate set of financial statements was repeated in the Parliamentary Pensions Law. It was not the intention to create unnecessary administrative burden in the compilation of data that provides little or no meaning to the users of the financial information. Accordingly, the Board has chosen to comply with the spirit of the Parliamentary Pensions Law,

Public Service Pensions Board Notes to the Financial Statements For the Years Ended 31 December 2004 and 2003 (Expressed in Cayman Islands Dollars)
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2004, and has prepared the financial statements for the year ended December 31, 2004 on a combined or consolidated basis in accordance with historical practice. Notwithstanding this, the following schedule outlines the share of assets allocated to Members of the Legislative Assembly:

Parliamentary Pensions Fund w/ Interest as	
at 1 January 2004	\$ 2,625,328.39
Contributions Received –	
1 January to 31 December 2004	178,005.38
Interest Earned on Assets –	
1 January to 31 December, 2004	119,430.57
Parliamentary Pensions Fund w/ Interest as	
at 31 December 2004	\$ 2,922,764.33

8. Judiciary Pension Contributions

Currently the Fund is receiving contributions on behalf of Judges of the Grand Court. These members contribute at a rate of 10% of pensionable earnings and employers contributed an additional 31% effective 1 January 2000. An actuarial valuation as at 1 January 2002 concluded that existing contribution rates to the plan are sufficient. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board. These contributions have been pooled for investment purposes with those of the Fund. The liability as shown on the Statement of Net Assets, reflect contributions received to date and an element of income allocated to those contributions based on the Fund's annual rate of return.

9. Benefits Paid to Participants

Beginning in April 1999, payments were paid out of the Fund for pensioners of the Public Service Pensions Plan. The Government continued to pre-fund payments made to recipients of the Ex-gratia Allowances. The Parliamentary Pension Plan were pre-funded by payments from the Government up until the passage of the Parliamentary Pensions Law (2004) on 23 August 2004 which required that benefit payments should be paid from the Parliamentarian Pensions Fund.

Benefits Due relates to participants who had attained the age of 60 prior to 31 December 2004 and whose pension payments had not commenced. Under section 23 of the Public Service Pensions Law (2004 Revision), participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further benefits.

10. Overpaid Contributions

Overpaid contributions are contributions, both employee and employer, which are paid over the amount of

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

pension due or on the behalf of employees not eligible to participate in the Plan. These overpayments are either netted with receivables or refunded at the request of the employer.

	<u>31 Dec 2004</u>
Overpaid Contributions – Employee	\$ 640,368
Overpaid Contributions – Employer	616,403
Overpaid Contributions – Additional Defined Benefit Cost	3,287,430
Total Overpaid Contributions	\$4,544,201

11. Government Subsidy and Related Expenses

The Board received a subsidy of \$1,268,474* from the Cayman Islands Government to cover Operating, Capital and Investment Management Expenses. The subsidy was received as follows:

	<u>2004</u>	<u>2003</u>
Annual Government Subsidy (*Cash Basis)	\$1,268,474	\$995,000
Less capitalized Purchases	(103,231)	(60,634)
Plus Loss on Disposition	32,578	401
Plus Amortization of Capitalized Government Subsidy	64,457	57,013
TOTAL OPERATING INCOME FROM GOVERNMENT SUBSIDY	\$1,262,277	\$991,780

The portion of the Government Subsidy that relates to the purchase of capital assets is included in the Statement of Net Assets Available for Benefits as Capitalized Government Grant. This will be amortized to the Statement of Changes in Net Assets Available for Benefits over the useful lives of the assets purchased.

	<u>2004</u>	<u>2003</u>
Opening Net Capitalized Government Grant	\$277,711	\$274,491
Capitalized Government Grant	103,231	60,634
Loss on Disposition	(32,578)	(401)
Amortization of Capitalized Government Grant	(64,457)	(57,013)
TOTAL CAPITALIZED GOVERNMENT GRANT	\$ 283,908	\$ 277,711

The Investment Management Fees are paid on a quarterly basis to Scotia Cassels Investment Counsel Ltd. and CIBC Bank and Trust (Cayman) Ltd. for the management of funds invested with those institutions.

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

The Administrative Expenses incurred were as follows:

	<u>2004</u>	<u>2003</u>
Salaries and Benefits	\$904,360	\$603,866
Office Accommodation	115,664	90,094
General Administrative	73,627	111,024
Actuarial Fees	145,694	54,820
Investment Consulting Fees	131,816	36,458
Audit Fees	55,000	50,000
Other Professional Fees	51,717	147,343
Trustee Allowances	10,134	12,814
TOTAL ADMINISTRATIVE EXPENSES	<u>\$1,488,012</u>	<u>\$1,106,419</u>

In September 2004, hurricane Ivan devastated the Cayman Islands causing extensive damage to the PSPB office located at Cricket Square. The cost of the damages to the office was estimated to be approximately \$160,000. The PSPB has insurance coverage of 100% and the insurance company has agreed to honour the claims in full. The deductible for the insurance claim was \$6,600 and \$75,000 of the settlement has been received. This amount has been netted with administrative expenses. The balance of the insurance proceeds of \$77,891 has been accrued.

The Board leases the premises used under a lease agreement dated, 18th December 2001 for the total office space of 2,567.8 square feet at US\$33 per square foot totalling US\$84,737 per annum. The lease is for an initial 3 year period with a 1-year renewal option. Rental payments, which include maintenance fees, are charged to the Statement of Changes in Net Assets Available for Benefits in equal instalments over the period of the lease.

12. Actuarial Position as of 1 January 2002 – Public Service Pensions Plan

The Fund Deficit was determined using the results of the actuarial valuation as at 1 January 2002 which determined the Past Service Liability to be \$267 million.

The principal assumptions used in the computation of the actuarial estimate of the pension liability are as follows: an annual salary increase of 5.0%, a long term inflation rate of 3.0% per annum, a valuation interest rate to discount future benefit payments of 8%, an expected long-term rate of return on the Fund's invested assets of 8%, anticipated future pensions payments increases of 3% per annum, and a retirement age of 55 years.

The actuarial valuation calculated a normal cost of 12.4% which is the required amount to fund the cost of benefits earned during the current year, with allowance for future pay projections. The deficit on the

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

Statement of Accumulated Plan Benefits arises mainly as a result of participants having accrued considerable benefit entitlements prior to the establishment of the Fund. The amortization of the deficiency over a 20 year period results in an additional contribution rate of 16.11%. Therefore, the Total Annual Cost of the Plan as at 1 January 2002 was calculated to be 28.51% of total pensionable emoluments.

While the fund remains underfunded, the actuaries determined that the liability for inactive members (existing pensioners and beneficiaries and those with deferred pensions) is sufficiently covered by available assets. It was recommended by the actuary that the 22% total contribution rate should remain as a minimum.

During the reporting period ending 31 December 2004, the total contribution rate to the Fund was 22%, consisting of 6% Employer contributions, 6% Employee contributions, and a 10% for Additional Defined Benefit Costs.

13. Actuarial Position as of 1 January 2002 – Parliamentarian Pensions Plan

The actuarial valuation as at 1 January 2002 of the Public Service Pensions included the Parliamentarian Pensions Plan. A separate actuarial valuation was done for the Parliamentarian Pensions Plan as at 1 January 2002 and determined that the Past Service Liability (with projections of pay) was \$13 million. The Parliamentarian assets are currently carried on the Financial Statements of the Public Service Pensions Plan and therefore the Past Service Liability is included in the Statement of Accumulated Plan Benefits.

The actuarial valuation calculated a normal cost of 23.06% which is the required amount to fund the cost of benefits earned during the current year, with allowance for future pay projections. The deficit on the Statement of Accumulated Plan Benefits arises mainly as a result of participants having accrued considerable benefit entitlements prior to the establishment of the Fund. The amortization of the deficiency over a 20 year period results in an additional contribution rate of 23.3%. Therefore, the Total Annual Cost of the Plan as at 1 January 2002 was calculated to be 40.36% of total pensionable emoluments.

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

14. Actuarial Position as of 1 January 2002 – Judicial Pensions Plan

The actuarial valuation as at 1 January 2002 of the Judicial Pension Plan was calculated using three different options:

- Option 1 – Excludes pre 09/97 service
- Option 2 – Includes pre 09/97 service without the repayment of the gratuity paid
- Option 3 – Includes pre 09/97 service with the repayment of the gratuity paid

The results of the three options were as follows:

	Liability	Surplus/ (deficit)
• Option 1	\$585,658	\$17,557
• Option 2	689,434	(86,219)
• Option 3	793,210	(189,995)

15. Related Party Transactions

The Board engaged the services of the Legal Department, the Computer Services Department and the Cayman Islands Audit Office during the year. The Cayman Islands Audit Office audits the Board's annual financial statements for a quoted fee of \$50,000 for 2003 and \$55,000 for 2004.

16. Financial Instruments

Credit Risk: Financial assets that potentially subject the Board to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable and other receivables and prepayments. The Board's current, call and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Board only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Board has no significant concentrations of credit risk.

Interest Rate Risk: The Board's interest bearing investments and deposits are at fixed interest rates.

Fair Values: The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 4. The fair values of other assets and liabilities are not materially different from the carrying amounts.

Public Service Pensions Board
Notes to the Financial Statements
For the Years Ended 31 December 2004 and 2003
(Expressed in Cayman Islands Dollars)

17. Subsequent Events

The Actuarial Valuations as at 1 January, 2005 for the Public Service Pensions Plan, the Parliamentary Pensions Plan and the Judiciary Pensions Plan were accepted by the Board and approved by Cabinet, and tabled in the Legislative Assembly on 9 November, 2006.

The Actuarial positions as of 1 January 2005 for each plan is as follows:

Public Service Pensions Plan	CI\$ Millions
Value of Pension Fund	134.9
Allocated Assets	
Past Service Liability	(300.6)
Fund Deficiency	(165.7)

Parliamentary Pensions Plan	CI\$ Millions
Value of Pension Fund	2.2
Allocated Assets	
Past Service Liability	(15.5)
Fund Deficiency	(13.3)

Judiciary Pensions Plan	CI\$ Millions
Value of Pension Fund	0.890
Allocated Assets	
Past Service Liability	(0.835)
Fund Surplus	0.055